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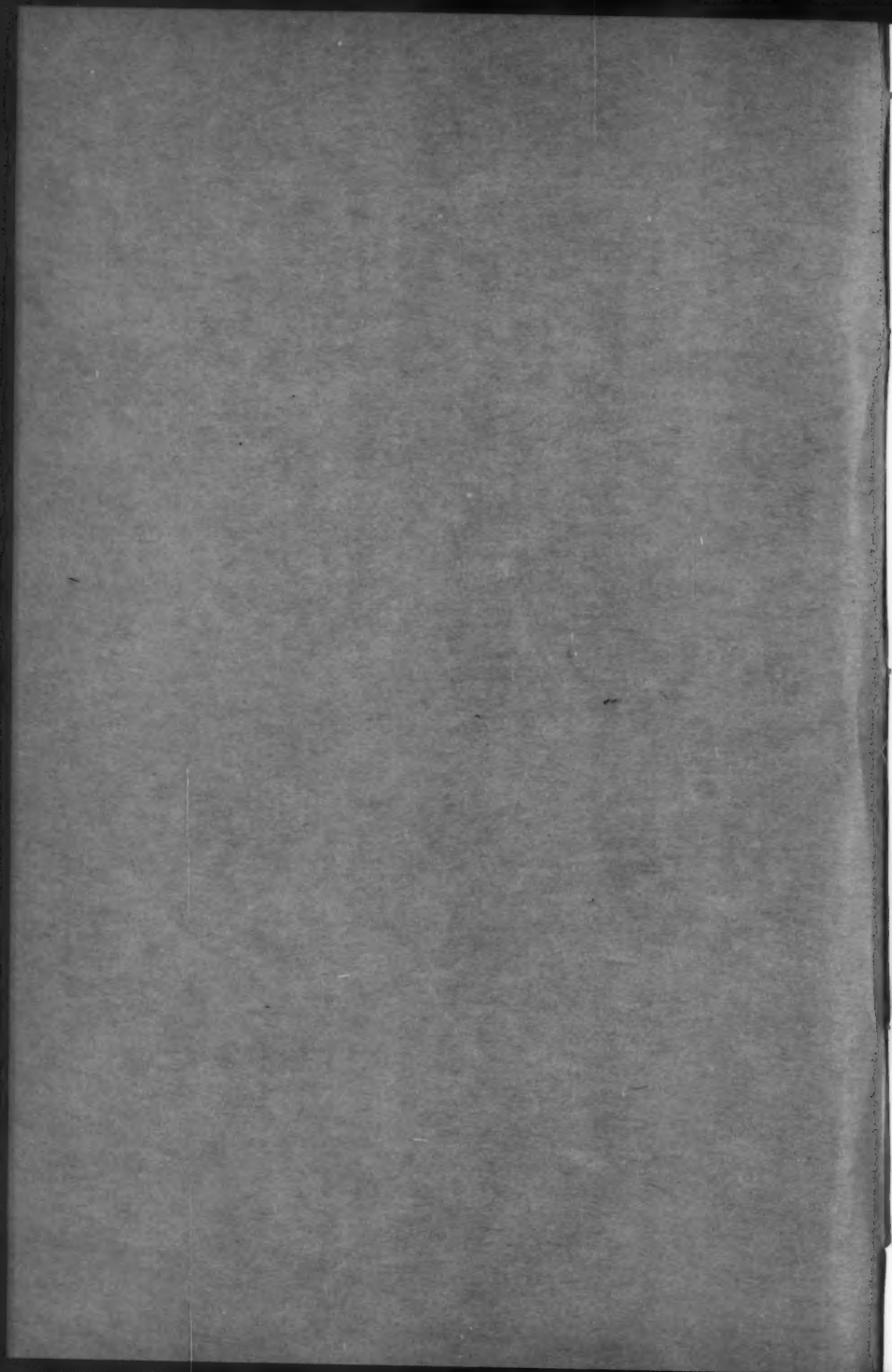
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German Finance and Industry^{*}

Present Conditions That Should Be Known by
American Manufacturers

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Certain conditions obtaining in Germany today are worthy of consideration, in order to understand the tremendous improvement which has taken place during the past year in the German financial and industrial situations, and because a knowledge thereof is essential to anyone who may be affected by further changes of magnitude which must still take place in order that Germany may effectively compete in the world markets.

In November, 1923, the stabilization of a new issue of German currency, with the "rentenmark" as a basis, was effected. The "reichsmark," introduced under the Dawes plan, is now the official basic currency unit, as the issue of the rentenmark was discontinued some months ago. Both currencies are officially recognized as of equal value (4.2 marks per dollar) and are used interchangeably; they are quoted on the various exchanges at the pre-war value of the mark, i.e., 23.8 cents.

The January 31, 1925, statement of the Reichsbank, the bank of issue, showed a gold reserve with respect to circulation of 43.9 per cent. and a total reserve of 58.5 per cent. including both gold and foreign exchange. An important factor in the maintenance of such reserves by the Reichsbank has been the proceeds from the German government loan in America, of which Germany has already

received \$42,500,000, including the \$2,500,000 in gold, shipped by J. P. Morgan and Company a day or two ago (February 9, 1925). Confidence in the stabilized currency at home and abroad has even brought about a renewal of the savings habit, as the year 1924 showed a very satisfactory increase in savings banks deposits. Recent bank and governmental graft scandals have, however, temporarily affected this confidence, but it will be restored.

Interest rates for borrowed money were very high during 1924, reaching their high point during May and June, when the German banks charged from 5 to 7 per cent. per month interest. Today the rates quoted are from 10 to 13 per cent. per annum for daily or monthly reichsmark loans; dollar and sterling loans are quoted at 7 to 7½ per cent. per annum. Further improvement in interest rates is looked for in the future. Of importance in connection with the easing of the German money market are the large industrial loans recently placed in America, of which more are expected, the financing syndicates in process of formation in England for the specific purpose of financing German industries, and the short-term credits extended abroad to German buyers.

During the inflation period many industries paid off their loans, and invested any remaining liquid capital, in so far as it was possible to do so, in

^{*}Written for *Management and Administration*, by whose courtesy this article is here reprinted.

materials, equipment and buildings. The result is that many of the industries are operating today partly on the proceeds of the inventories which were on hand at the time the stabilization was accomplished, partly on new bank loans, for which they are paying interest at rates too high to be borne profitably, and partly on credits extended to them by suppliers in other countries, principally America. It is estimated at this time that the short-term credits of the nature just referred to, extended by American suppliers, aggregate not less than \$125,000,000, and that they are carrying an average interest rate of approximately 5 per cent. per annum. If the present outstanding acceptances are met at maturity, a decided increase in this method of financing American exports to Germany may be looked for, as America desires this export business, and the carrying cost to German manufacturers is much lower than the cost of local borrowings.

Within the past few weeks a number of Germany's largest and richest corporations have secured funds through the sale of bonds or notes in America, but in some of which Dutch investors also participated. With one exception these were all covered by either merchandise collateral or mortgage, and in every case the borrowers were not only long established and foremost operators in their line, but concerns whose aggregate annual export business in normal times or at present is in volume much larger than the annual requirements for interest and amortization of the loans. Such borrowers will be in much more advantageous position to take care of their foreign loan obligations than will those who must purchase foreign exchange in the open market for that purpose, where competition will be had not only with normal purchasers, but also with the

Reparations Commission, which will continually require large amounts of foreign exchange. Nevertheless, additional offerings to American investors of securities of large German industrial corporations are probable. Through the medium of holding corporations formed especially for the purpose of holding mortgages from its members and issuing one obligation for a large foreign loan (the proceeds of which will be allocated among its membership) many manufacturers of similar product hope to obtain liquid capital from abroad, which none of them could obtain directly because of their comparatively small size and their lack of international reputation.

Prospect of German Loans Abroad

There is every indication that there may be a flood of provincial and municipal German loans made abroad. The only check upon this financing, however, happens at the moment to be a very effective one, in the shape of a special National Commission, without the approval of which no such loans can be legalized. Provinces or municipalities which own industries from which income can be used to cover interest and amortization, will probably have little difficulty in securing such approval. The *Sächsische Industrie* loan is a case in point, where the obligation is that of industries whose capital stock is owned entirely by the state of Saxony and which state is understood to have guaranteed the payment of the loan and interest.

Gold Mark Financial Statements

By national decree, all corporations were required to file balance sheets upon the basis of gold mark valuations as at January 1, 1924. While extensions have been granted from time to time, the latest date now set being March 31, 1925, most of the corporations whose securities

are listed upon the Berlin Bourse have filed such balance sheets. A scrutiny of the present capital (scaled down to cover gold mark valuations of assets and liabilities) of about 700 of such concerns, is illuminating. The capital prior to the restatement was upon the basis of inflated currency, and in many cases was from 2 to 35 times greater than the pre-war capital. The scaling down of the valuations to the gold mark basis naturally showed very large shrinkages, resulting in a loss of from 50 to 95 per cent of such inflated capital. However, these shrinkages are not so serious as would at first appear, as a comparison of the present restated capital with the pre-war capital indicates that in very many cases the present capital is even higher.

It should be borne in mind, however, that prior to the war, German banks and industries wrote off their buildings and fixed assets, so that their value appeared on the balance sheet at very nominal figures, whereas in many cases these values had to be restored when restating the capital in 1924, to make a decent showing. On the other hand, it was to the advantage of German institutions to show as little invested capital as could be reasonably shown, as thereafter dividends can be paid upon such comparatively small capital even when the earnings are not large. This fact, and a desire to keep the property tax down to a minimum, resulted in low valuations wherever possible without entirely wiping out the capital investment on the restated balance sheet.

It is apparent that, as a whole, German industry is in as favorable a position as before the war, that its investments in plant and equipment, while in many cases not modern, have not shrunk, and that working capital is the principal need today.

Taxes and the National Budget

Contrary to popular belief in some countries, German industry today is heavily taxed. Its most burdensome direct taxes are the Turnover Tax (formerly $2\frac{1}{2}$ prior to 1925 and now $1\frac{1}{2}$ per cent), the Property Tax, the Tax on Wages, on Capital Movement and on Anticipated Income. The last mentioned is not really an income tax since it is based on sales volume and not on profits. It not infrequently happens that those who actually have losses are paying income taxes. These direct taxes aggregate a total of from 5 to 7 per cent of gross sales volume. Then there are other direct and indirect taxes, among which are those of from 10 to 20 per cent on wages and salaries (deductible at the source), on individual income, on wine and other articles of consumption classed as luxuries.

All of those mentioned are national taxes, mostly of an emergency nature or directly due to effects of the war. In addition to these burdens are the state and municipal taxes, and although not high in rate, but affecting every industry and individual, are the social taxes, such as health and old age pensions.

The industries are selling abroad without profit to meet competition, and an effort is now being made to relieve industry of practically all taxes on business done in foreign commerce. The workman groans under a burden of taxes which leave him not even a living wage, and those taxes are certain of amelioration.

At the outset of the stabilization period no one could reasonably estimate the amount of taxes which would be collected upon a gold mark basis, and the one aim was to cover the national budget. Not only was this accomplished, but such an excess of tax income was produced, that large sums have been recently paid as indemnities to German industries in

the occupied territories, and it is only too clear to the people that taxes can be reduced, and that legislators will be compelled to reduce them. Whether or not such reduction can be accomplished to an appreciable extent during 1925 depends largely upon what political action is taken upon the question of valorizing a certain percentage of the national, provincial and municipal bonds which were practically wiped out during the inflation. German holders of mortgages and industrial securities, and German depositors in savings banks, subject to certain limitations and regulations, will probably recover about 15 per cent of their losses through valorization already provided for. If legislation is enacted similarly to reimburse former holders of securities of the national government and of political subdivisions, the reduction of taxes will be a slow process.

A comparison of Germany's 1923 and 1924 imports and exports is shown in Table 1.

TABLE 1. IMPORTS AND EXPORTS
(In 1000 Gold Reichsmark)

	1923	1924	INCREASE (-DECREASE)
IMPORTS:			
Live stock.....	32,542	92,467	59,925
Food and beverages.....	1,203,725	2,676,934	1,473,209
Raw materials.....	3,106,878	3,686,786	579,908
Semi-finished mdse.....	806,016	897,05	91,638
Finished mdse.....	920,391	1,781,213	860,822
Gold and silver combined.....	11,839	181,787	169,948
	6,081,391	9,316,841	3,235,450
EXPORTS:			
Live stock.....	3,122	13,713	10,591
Food and beverages.....	131,367	419,142	287,775
Raw materials.....	367,499	468,089	100,590
Semi-finished mdse.....	362,670	439,091	76,421
Finished mdse.....	5,199,731	5,191,418	-8,313
Gold and silver combined.....	14,765	35,401	20,636
	6,079,154	6,566,854	487,700
Excess of imports over exports.....	2,237	2,749,987	2,747,750

Food, beverages and finished merchandise are largely responsible for the

heavy increase of imports during 1924; while raw materials were also a contributing factor, their export also increased during 1924. It is interesting to note that, while the gross importations of raw material during 1924 exceeded those for 1923 by nearly 580 million reichsmark, the total finished merchandise exported during 1924 was less than during 1923. While published figures are stated to include those for the occupied area, the writer doubts if such figures are entirely reliable; nevertheless it is probable that the relations of imports to exports would not be seriously affected by any adjusted figures, none of which are now available.

In German financial circles this condition is giving great concern, and every effort is being made to increase exports since it is not believed possible to reduce the imports greatly, except possibly with respect to the items of beverages and finished merchandise. Germany must always import food, and efforts to control imports of finished stock have taken the shape of limited embargoes on such goods as Germany can produce.

Germany must bring her exports up, not only to balance her imports, but far to exceed them if she is to meet her obligations under the Dawes Reparations Plan and to take care of the interest and amortization charges on her foreign industrial loans and of the current maturities on her short-time credits.

Germany is bending every effort to recover her pre-war markets. The tariff has made the United States of America a much more limited market for Germany than before the war, and Russia is no longer the large outlet she once was. Germany at present is exporting principally to South America and Asia; she is developing what business she can get in Russia and in the English territories and multiplying her sales to the smaller

countries, which collectively are not to be considered an insignificant market. Commercial treaties with the larger world powers are still under consideration, and their conclusion may open markets in which Germany now can make only limited sales. Large Russian orders in exchange for exploitations are not an improbable development of the future.

Germany must have exports at whatever cost. She is already selling in some foreign markets at no profit, and in many cases at prices less than sold for home consumption. It may be that she will adopt the policy which some of the smaller newer nations of Europe for a time followed, of exporting at even less than cost of production in order to secure exchange to meet foreign obligations. She anticipates that anti-dumping laws in all the larger countries may cause trouble in this regard.

German Industrial Production and Costs

German industry is at the present time, with a few exceptions, working at capacity or close thereto. The larger portion of the product is, however, for home consumption, and if the cities and provinces secure loans of sufficient amount to undertake the extensions of public improvements and renewals of public service facilities which ought to be undertaken, a shortage of manufacturing labor would not be surprising. Some of the industrial loans made abroad doubtless will be used for modernizing production equipment. Capacity operations, the modernizing of equipment and lower taxes will reduce costs. Consolidations may also be looked for in a further effort to press down costs to a point where competition in the export field can be successfully met.

America's concern has always been that Germany could produce cheaply

because of very low wages. The German workman today receives approximately as many reichsmarks as the American workman does dollars. From this it will be seen that the German labor-costs today would be about one quarter that of the American labor-cost, if the individual efficiency were approximately identical. However, the German has little incentive to be efficient since the cost of living is, with the exception of rent, the same in Germany today as in the United States. Wages must be raised, and the cost of living must be reduced. Manufacturers expect to increase wages, and stringent measures looking toward the reduction of cost of living may be expected. There are indications that, in spite of low wages, the German is again starting to save. When he sees that he can make some headway, the efficiency of the German workman will doubtless increase and this will have the effect of lowering the cost of production. The banks' restriction of loans will result in cutting of the overhead expense, which is greater than in American factories.

The accomplishment of the lower production costs through the reduction of taxes, the increasing of efficiency to more than offset the necessary and certain increase in wages, the modernizing of equipment and the reduction of financing cost, cannot be done during the period of a single year. In fact, it is doubtful if they can be done within five years to such an extent as to bring German costs down really to compete in America with local manufacturers there. The financial and industrial interests who are about where they were prior to the war or who have lost much through the inflation period, want to make the profits which they should have made or recuperate their losses, as soon as possible, and it may even be that some of the readjust-

(Concluded on page 19)

Will the Accountant Become the Adviser of the Business Man?

By HOMER S. PACE

Who advises the business man in his hours of perplexity? Who helps him to keep the road when the business machine turns a sharp corner because of price readjustments? Who is to advise him as to the form his organization should take in a time when misjudgment means additional taxes? With whom is he to counsel when he seeks a way to extend his credits, to increase his capital, to find new markets? The engineer? No. The lawyer? Rarely. The accountant? Perhaps. The "perhaps," with its connotation of choice on the part of the accountant, is excuse for this article. The financial advisory work of the greatest commercial nation in the world is in the balance.

Business propositions from every part of the world are flowing in an endless stream to the United States—to the world's greatest repository of capital. Particularly, the propositions come to New York. Governments, provinces, cities, as well as public utilities and business enterprises of all sorts, are to be financed. The calls come from an impoverished Europe and from an undeveloped Africa, Asia, and South America. These propositions lie today, in one form or another, upon ten thousand desks. Here is the simple story of one—its inception, its investigation, its conclusion.

John Jones, let us say, was informed of a business opportunity in Venezuela. The proposition was attractive. A net return of 25 per cent. upon the money to be advanced seemed probable, with the chance of turning over the investment within a short time at a generous profit.

Jones knew little, however, about the kind of manufacturing that was to be carried on, and even less about local conditions and markets. He was willing to take a business risk, but he was unwilling to take a fool's chance. He was perplexed.

And this is what John Jones actually did. He called up a certified public accountant—an accountant with investigative and auditing experience in many kinds of business and a familiarity with Latin-American conditions. The accountant was told of the proposition; he was asked to journey to Venezuela, to investigate the conditions for the purpose of giving his advice as to whether or not the proposition should be accepted. The accountant, having many commitments, replied that he could not personally go, but that he could send an associate who was, by reason of his knowledge of the Spanish language and of South American conditions, especially qualified for the work. An arrangement was made by which the associate was to make the investigation and cable the facts to the accountant, who in turn was to give his advice. The cablegrams were received in due course; the property was purchased and developed. The associate accountant stayed to organize the work. He installed an accounting system, and he chose and trained a manager. The business produced from the start a satisfactory return and the investment has greatly increased in value. An advisory service, quite distinct from auditing or constructive accounting, was thus rendered and paid for.

These propositions continue to pour in. They open the way, if properly con-

sidered, to our successful extension in world trade and finance. They involve questions of markets, costs, personnel, and finance. Occasionally, an incidental problem of law or engineering is involved. But chiefly, they are problems for the technician in organization, accounting, and finance to solve. Hence it is that the accountant more often than not is called upon to determine facts and to render the advisory service required by the prospective investor. The accountant, more than any other professional man, is able to extend counsel that will segregate from the great mass of offerings the wheat of sound enterprise from the chaff of visionary promotion.

Perplexing problems are not by any means confined to business propositions of foreign origin. Each local community, each business, in fact, in this country of new and developing industries, of chain stores, of truck haulage, and of radio and moving-picture production—each community and each business, we say, creates and presents its own intricate and perplexing problems. Consider, if you please, a few of them.

Organizations have been built upon the manufacture and sale of talking machines—upon a world demand for the only instrument that could be used to bring variety of music and speech into the home. Literally out of the clear blue sky came music and speech by radio, and within a year or two a radio appliance concern developed a business of \$55,000,000—a business built on an instrument sold in direct competition with the talking machine. Troublesome times, you will say, slippery roads and sharp curves, for any concern carrying its business eggs in the single basket of talking-machine production. Here is urgent need, you will agree, for sound counsel. Questions of markets, costs, finance—expansion with new lines of

business or retrenchment with old—surge to the front.

Many an industry was not able to turn the sharp corner caused by the development of the automobile. Studebaker and a few other manufacturers of horse-drawn vehicles turned the corner successfully—other manufacturers did not. It may be recalled that many horse-drawn vehicles were assembled, in whole or in part, and that the business of providing accessories was large. Where now are the concerns that formerly did this business? One company manufacturing dashes for buggies had a business in excess of \$3,000,000 per annum. It survived, but not on dash business. The successes of the automobile business are well known—the tragedies are in the memories of the men who failed to read the business signs aright.

The developing conditions of a new industry, however, provide plenty of thrills to the business manager—more in fact than come to the manager in the older industry. The going is all over the road, with plenty of need for acceleration as well as four-wheel brakes. Ask the promoters of a developing radio organization—a seller's market, demand beyond supply, in December; an unaccountable slump in January; an improved device in February. It takes clear-headed work to carry over when a company that spent its advertising appropriations for many years to convince the public of the exclusive advantages of a four-cylinder motor, changes overnight to a six or an eight or a twelve. It takes courage and clear vision, too, for an automobile company that has built its business on a high-priced car successfully to cross over to the marketing of a low-priced car.

Consider the corset makers, if you please, in their devious wanderings during the last twenty years. Consider the business effects caused by the bobbing

of hair. Consider the progression, by way of the shaving stick and shaving powder, from shaving soap to lather in tubes. Think of the transfer of shaving activities from barber shop to home caused by the safety razor. Business problems have we here by the hundreds, real problems relating to profits and losses.

The rapidly shifting basis of living, the introduction of luxuries that soon become necessities, the added utilities provided by advancing science, the creation of new markets and the abandonment of old markets by reason of changes in fashion—all these things and others, cause problems that call for scientific study and consideration. Problems of credit, of finance, of banking, of promotion, of cost finding, of sales analysis, and the like are inextricably associated with the problems relating to character of product and scope of business. These problems are not often of an engineering or legal character. They have been solved in the past, after a fashion, by business men on the basis of experience gained in particular businesses. The problems are difficult—the demand for technical assistance is growing. Advisory ability equal to this advisory task, however, can be built only upon a mental training and a width of observation that exceed that possessed by the ordinary business man. The adviser must be able to make a contribution of undoubted value.

Does the accountant when called upon measure up to this advisory responsibility? Usually he does. For example, a large and successful concern giving a service in the city of New York called in a firm of accountants. The purpose was to make an audit and a study of the business with the view of improving its operating procedures and reducing its operating costs. The business, while not of a merchandising character, had many

of the features of a chain-store operation. Plans of extension into other cities were under way and long-time leases were being prepared for signature.

The accountant in charge of the studies developed the fact that less than 30 per cent. of the local field in New York City was covered. Among other things, he called attention to the undeveloped local field, and he advised against the extension of the activities to other cities. He pointed out the greater difficulties imposed in managing at a distance and the greater net profits that would probably be realized if the local territory were first fully developed. He based his opinions on his studies and his observation of the work of other companies. His advice was accepted. The negotiations for facilities in other cities were abandoned, and all energies were centered on the more profitable local development.

Perfectly obvious, you will say, action of this sort—action that any shrewd business man would be expected to take without counsel. The fact remains, however, that the men who received and acted upon this advice were shrewd enough to build a very successful business in a highly competitive metropolitan territory, and that they were about to enter upon a difficult and problematical field of development while overlooking the better field immediately at hand. Many thousand dollars of additional annual profits for the few years have come by reason of the advice given by the accountant. The advice did not relate to legal or engineering matters.

The provision of physical facilities of the right sort is not the least of the business man's worries, no matter whether he operates as a merchant or as a manufacturer. An instance comes to mind, in which a highly successful manufacturing firm, desiring more accurate knowledge with respect to its costs, employed a

certified public accountant to devise and install a cost-finding method. The work disclosed unnecessary costs due to the storing of raw materials and finished goods in scattered and unsatisfactory storerooms; it developed that the operations were conducted in three or four antiquated buildings involving the expensive transfer of materials and work-in-process from building to building; it brought to light poor shipping facilities and excessive haulage costs. The cause of these conditions was primarily one of inadequate and poorly-located facilities.

Out of this work, undertaken on the part of the firm with no thought of shaping basic policies, came the recommendation from the accountant for the securement of modern and adequate factory quarters and the abandonment of the old and expensive facilities. With the recommendation came also the suggestion that the plant manager, if it were at all practicable, should be taken into partnership. This suggestion was based on the fact that the manager, without the knowledge of the members of the firm, had become exceedingly restive and was considering the advisability of seeking another engagement. His specialized knowledge was of great value to his concern, and after a study of all the factors, it seemed to the accountant that good business demanded such a readjustment of the relationship as would insure the retention of the manager's services. All the recommendations were accepted and brought to a successful conclusion. Real-estate matters were handled by real-estate men; legal formalities were taken care of by the lawyers; and the engineering problems were entrusted to engineers. Basically, however, the advice was with respect to business policies and did not involve either engineering or legal matters.

A hundred other instances and more

of like tenor could be given from the experience and observation of one practicing accountant. Thousands could be collected from the experiences of the members of one state society of accountants. Enough typical instances have been given, however, to indicate how the work of the accountant uncovers the facts and lays the basis for advice.

Notwithstanding these instances, and the fact that the accountant is moving, perhaps without conscious appreciation of the fact, into this great advisory field, it must be remembered that the ordinary practice of accountancy does not require the giving of advice to clients. The backbone of accountancy practice, it will be admitted, is found in the audit of business transactions. On the basis of these audits, statements and reports are made which are used for credit and promotion purposes and for distribution to stockholders or other people in interest. The analysis of the work ordinarily performed by accountants leads us to two conclusions, namely:

First, that financial facts are determined by a meticulous review and analysis of what has happened and of the existing state of affairs. For example, it is determined that the title to certain pieces of real estate vest in the client and that he owns certain securities and certain lots of personal property. It is also determined that he is indebted to others in certain amounts, that he has received and paid out certain amounts of cash. The accountant thus determines matters of fact, which are presented to his client by means of statements and reports.

Second, the accountant presents certain conclusions in conjunction with facts. It is not enough for him merely to determine the facts as to the ownership of real property and other assets—he must reach conclusions as to their value. The value of an asset pending realization

is always a matter of judgment. Who can state, as a matter of strict fact, that a machine in full and efficient operation has depreciated 10 per cent., 20 per cent., or 50 per cent.? Judgments are necessary on every hand. Both the balance sheet and the profit and loss account are based largely upon expressions of opinion.

The accountant, therefore, presents to his clients, as an ordinary incident of his practice, findings of facts and judgments. He does not, however, usually or necessarily tell his client that, in view of the facts and conclusions given, he, the client, should maintain or change one or more of his business policies. It is no part of the work of the auditor to suggest a method of reorganization, a means of obtaining credit, a revision of selling policies, or the like. He is often not willing to give such advice, even if it is requested. Particularly, he is not always accustomed to the idea of charging for his advice a reasonable fee. Is the accountant to limit his work to this important, though restricted, field? Is it desirable? Is it necessary? We think not.

Here stands accountancy, the new-comer among the professions, at the very threshold of a most interesting and profitable development of its field of work. The successful taking over of this enormous field of professional endeavor is dependent upon the capacity of the accountant to give worth-while advice and his desire to render the service. In the early days, the accountant admittedly often lacked the fundamental economic training and the width of viewpoint necessary to perform this important service. Now come thousands of younger men, many of them with college education and professional training in schools of accountancy and business administration. As these men be-

come experienced and assume the full responsibilities of accountants, when they present facts and conclusions as a result of audits, are they to stop on the threshold of this advisory field, or are they to enter it and extend the frontiers of accountancy far beyond the vision held by the accountancy pioneers?

So far, the accountant, stepping rather gingerly, has been led into this field by his client. He has often been surprised, by reason of favorable outcome, at the worth of his own advice. Now and again he has found a way to give advice and to charge a reasonable fee for it. Examples have already been cited. The handling of tax cases has done much to educate both the accountant and the business man with respect to the value of the advisory service which the accountant can render. Precedents have already been established.

And still the field remains practically uncovered, an open hunting-ground for the lawyer, the engineer, the industrial engineer, and—the accountant. We repeat: Are the practicing accountants to stake off their place in the sun in this advisory field of development, or are they to work within the narrow confines of the old accountancy practice?

There can be only one answer. The practicing accountants of the country will, in the course of a generation, take over the financial advisory work of this great industrial and commercial country. They will meet the responsibilities, they will profit by reason of the performance of a work that will far transcend the importance of their work as auditors. To the accountant of 1950, the accountant of 1925 will appear as limited as the graduate bookkeeper-accountant of 1900 appears to those of us who are now carrying the burdens of accountancy practice.

Welcome a greater Accountancy!

—The Pace Student.

Founders' Stock and Its Use

By F. E. SIBLEY

(*New York Office*)

Founders' stock is not a familiar form of capital security, yet some use has been made of it during the past few years in the organization and capitalization of corporations in this country. Whether or not this use will continue and increase, the very fact that founders' stock is being used now with somewhat greater frequency makes it of interest to examine the reasons for, what seems like, a revival of an old English term.

English corporations have used this form of security issue for many years but, as its name indicates, in a very restricted way. Most of the writers on finance and on business organization take cognizance of the term, but their comment is, as a rule, brief. McKinsey, in his "Controlling the Finances of a Business," writes as follows:

"Founders' stock has been issued to a considerable extent in England, but has been used very little in this country. It is a certain percentage of the stock which is retained by the original organizers of the corporation, which has certain privileges not enjoyed by the other shares of stock, such as special voting rights, or rights to receive greater dividends than the other stockholders."

Conyngton, in his "Corporate Organization and Management," gives the subject somewhat more detailed description and comment:

"In England, founders' shares, a kind of preferred stock which may be described as a privileged deferred stock, are frequently issued. To illustrate: A corporation capitalized at \$300,000, with \$100,000 of this as preferred stock and \$200,000 as common stock, might have

\$25,000 of this common stock set aside as founders' shares with specified dividend rights equal, perhaps, to all the other common stock. That is, under the supposed arrangement, after the preferred stock had received its dividend, any further dividends would be divided into two equal parts, one of which would go to the ordinary common stock, the other to the founders' shares. Under this arrangement, the \$25,000 of founders' shares would equal \$175,000 of the ordinary shares as far as participation in dividends was concerned.

"Under such conditions the founders' shares might have a value many times in excess of that of the common stock. Where employed, such shares are usually reserved as an emolument for the promoters of the enterprise, or as compensation to men of eminence or financial repute for the use of their names.

"It is supposed that under the New Jersey laws, and under the laws of some other States, these founders' shares might be legally issued. Some few companies have been organized upon this basis, but it does not appear that the subject has ever come up for adjudication in this country, and it is not certain what view might be taken of the matter by the courts. Probably, if accomplished by proper charter provisions and with the full knowledge of the stockholders generally and with all due publicity, the arrangement would stand. As everything to be secured by the use of the founders' shares can, however, be accomplished by the skillful but recognized and adjudicated use of common and preferred stock, it would hardly seem wise to venture on

ground that is, at the best, experimental and of doubtful utility."

The use of this type of stock would seem peculiar to English social and business conditions, and anything approaching parallel or similar needs for such a security in the American business world are apparently remote. The very name, *founders' stock*, smacks of an exclusiveness which might be expected to irritate our democratic sensibilities. Why, then, is it being used?

In the first place, although we have adopted the English term, we have adapted it to meet some special requirements of our own. This is, perhaps, not an uncommon American trait, this adapting of old-world ideas to a newer and, sometimes, broader purpose. But even in the newer uses to which we are putting the old terms, the real exclusiveness, which the name indicates, is its strongest attribute. It is a form of stock set apart from all others, which is placed in the hands of the organizers or founders of an enterprise, usually vesting in its holders complete and impregnable control. For generally, as it is being used in this country, all of the voting power of the corporation is lodged in the founders' shares, and all other stock issues, whether of a preferred or common type, participate in the assets and profits but have no voice in the management. This may be varied in instances when a preferred stock is also issued, the preferred having priority as to dividends, in which case it might be stipulated that in the event dividends were not paid for a certain period, voting rights should pass temporarily to the preferred stockholders. So closely, however, does the voting power inhere in founders' stock that another name for it could be controlling stock. The primary motive in issuing stock of this nature is to perpetuate control by the organizers.

It is no new thing in this country for an issue of stock to be deprived of voting rights. There are a number of very prominent common stocks listed on the New York Stock Exchange, sometimes designated as "B" stocks, which may be pointed to as examples. Indeed, for a time, after the Bethlehem Steel Corporation made its large issue of common "B" stock, this "B" stock, with no voting privileges, sold at a higher price than the "A" stock which had voting rights, but which, in all other respects, was identical with the "B" issue. There are many instances when preferred stocks have no voting right, except in certain events, and other instances when the preferred shareholders have the voting power and the common shareholders are deprived.

This would indicate that most investors value lightly the right of participation in the management of a corporation, which voting power in a stock gives—at least theoretically. It is not improbable that no more than one investor in ten, who, buying a stock listed on the New York Stock Exchange, inquires whether the right to vote in a stockholders meeting is carried by the security he is purchasing. Usually the control of a business is so firmly lodged, anyhow, in the hands of certain interests that the rank and file of shareholders never question the possibility of dislodging it. It can even be seen where, by the use of founders' stock, with its clear-cut and unequivocal assumption of control, a value is added by elimination of a right which in a practical market sense, is rather more often used to the detriment of the smaller holder of stock than to his advantage. When the complete control lodges in an issue of founders' stock and passes only with the transfer of that stock, the other issues of stock which the corporation may have become more completely investment propositions.

For practical reasons, when in this country we use founders' stock, the issue is generally a small one in comparison with such other stocks as may be issued. We use it not as an expedient to obtain preference as to dividends, but to secure control, and an issue of one hundred shares can attain this purpose as certainly as could many times that number.

In this connection it is interesting to take note that the American International Corporation, as originally organized, authorized an issue of preferred (*managers'*) stock which had unusual rights as to dividends. Moody's Analyses of Investments—1924—says of it: Preferred stock is entitled to receive dividends at the same rate as common up to 7%. Thereafter preferred receives one-fifth of any further distribution. In event of liquidation of corporation and distribution of assets, the preferred is entitled to amount of par value before any distribution on common, after which common is entitled to par value. Thereafter preferred stock is entitled to one-fifth of remaining assets, common entitled to four-fifths." The preferred issue as authorized was \$1,000,000; the common, \$49,000,000.

So far, the corporations which are using founders' stock as a medium of financing are comparatively few in number. From information obtained it would seem that prominent stock exchanges have not taken kindly to the idea of it. One security, a common stock now actively traded in on the New York Curb Exchange, was originally preceded by an issue of founders' stock; but to overcome objections raised in certain quarters, the founders' stock was, or is to be, exchanged for common stock which is to have voting power. To maintain control, however, a voting-trust is expected to be set up. This seems much like a distinction without a difference.

Other corporations using founders' stock, which the writer knows of, have made no attempt to distribute their stocks widely. Probably always this type of security will be used by conservatives who care more for the usefulness of a tool than for its popularity.

Although founders' stock has an inherent narrowness, there is a greater latitude in its use than is at first thought apparent. It has very real uses. No other form of stock issue can, with so relatively small a volume outstanding, control the destinies of a corporation; and where it is the firm intention of the organizers that control shall remain with them, their heirs or assigns, little, if any, valid objection can be made to its use. On the contrary, the fact that the holders of the founders' stock admit their sole control seems even an advantage. They publicly take upon themselves responsibilities and burdens which, to use an old English insurance phrase, they "are content to bear."

An Expensive Joke

George III, desiring his portrait painted, sent a member of his court to protest against the high price Wilson, 1714-1782, a famous and financially successful portrait painter in his day, asked for his work. In the impetuous, irresponsible way of an artist, Wilson said to the courtier, not thinking it would cause trouble, "If the King can't afford to pay the whole price at once, tell him I'll accept installments." That was carried to the King and his anger was such that no member of the court dared have his portrait painted by the offending artist, who became an outcast and died in poverty. You will find some of his paintings in the great galleries of England. It is a foolish king who cannot take a joke.—*Men & Money.*

The Annual Audit

The following article first appeared as one of a series of leaflets on various business subjects published by the Metropolitan Life Insurance Company for the information of its policy holders. Because the article sets forth in a concise and telling manner the reasons for, and benefits of, an annual audit it is, by the courtesy of the Metropolitan, here reprinted for the readers of the L. R. B. & M. JOURNAL.

The purpose of this leaflet is to show

FIRST—The result of an inquiry to a limited number of Metropolitan Group Policyholders, asking whether they were employing an Annual Audit.

SECOND—The main benefits professional accountants believe an audit should bring.

THIRD—A means whereby to obtain the best results from the audit, and

FOURTH—An approved form of Profit and Loss Account and a Balance Sheet.

Of twenty Policyholders responding, six stated that they did not have an audit made of their business; a seventh Policyholder reported that no outside audit is made because the company is well equipped in the matter of accountants in its own Auditing Department, and has all the necessary facilities for the preparation of reports, both monthly and annually. Thirteen Policyholders stated that they employ an audit and among them they cite the following benefits therefrom:

1. A sense of security.
2. A wholesome influence upon the working force.
3. Assistance in securing accurate costs.
4. Improvements in accounting methods.
5. Considerable assistance in the preparation of tax reports.

6. Exhibiting to banks and other creditors an impartial statement of financial condition.

7. A stimulation to self-examination with a view to avoiding an accumulation of poor accounts and out-of-date merchandise.

Professional accountants have, of course, more closely appraised the advantages of the audit, and a more detailed statement of its advantages is naturally to be expected from them. The following summaries are based on the composite views of some of the leading accountants in the country:

FIRST—A periodic audit affords a review by independent specialists of the operating results of the year and the financial condition. It frequently happens that the business man, intensely interested in the solution of problems, gets too close to his business to see it clearly.

SECOND—The annual audit furnishes a concise statement of the principal financial facts in the history of the business for the preceding year, and enables the management to make the necessary comparisons of this year's business with other years. A comparison of the results from year to year makes it possible to detect oversights in management which, if not found and corrected, would naturally prove serious. A company may be hampered by a shortage of working capital, or may be carrying too large

a force of employees in certain departments.

THIRD—The audit facilitates the granting of credit. It is welcomed by bankers because it gives authentic information which they can use for credit purposes. The audit is usually considered indispensable in the sale of commercial paper or other obligations.

FOURTH—The audit tends to reduce the difficulty in filing tax returns. Considerable weight is, moreover, attached by Income Tax Officials to figures prepared or certified to by reputable accounting firms.

FIFTH—The audit discloses errors in principle in accounting procedure before they become of such long standing as to make it difficult to change to the correct procedure.

Finally, the audit has a good moral effect upon the company's accounting staff. By modern accounting staffs, who have nothing to fear, it is welcomed as an endorsement of their work and because they can always learn something by contact with experienced auditors.

To obtain the best results from auditing:

- a. Audits, if made, should not be spasmodic, but should be regularly set at the close of each fiscal period.
- b. The audit report should include such comparative charts, percentages, etc., as will give a clear view of the trend of operations and financial condition. Charts and percentages are grasped much more readily than masses of figures in dollars and cents.
- c. In manufacturing and mercantile concerns the inventories should be verified or thoroughly tested.
- d. The auditors of corporations should, as in England and Canada, be elected by and be responsible to the Stockholders. The American plan whereby the auditors are appointed by the Directors is open to abuse.

The Federal Reserve Board, in cooperation with the American Institute of Accountants, prepared in April 1917, a bulletin on "Approved Methods for the Preparation of Balance Sheet Statements," which is, even at this date, the best concise statement available of what is comprised in a Balance Sheet Audit of a manufacturing or merchandise concern. In the bulletin which may be secured from the Government Printing Office at Washington, special instructions and suggestions are given for the auditing of Cash, Notes Receivable, Accounts Receivable, Securities, Inventories, Cost of Fixed Property, Deferred Charges to Operations, Notes and Bills Payable, Accounts Payable, Contingent Liabilities, Accrued Liabilities, Bonded and Mortgage Debit, Capital Stock, Surplus, Profit and Loss, Sales, Cost of Sales, Selling, General and Administrative Expenses. The Bulletin also contains a standard form of Profit and Loss Account and a Form of Balance Sheet which are here reproduced.

Whether the audit is made by the organization itself or by expert accountants employed from outside it needs to be regular, thorough, and fearless, and to take on the aspect of rigid self-examination. The results of such investigation will be reflected in a Balance Sheet and Profit and Loss Statement so designed as to call attention to fundamental accounting conditions meriting constant scrutiny. An audit so carried out will be proof against undue optimism and will provide a fair basis of comparison for prospective operations.

FORM FOR PROFIT AND LOSS ACCOUNT

Comparative Statement of profit and loss for three years ending.....19....

	Year Ending				Year Ending		
	19...	19...	19...		19...	19...	19...
Gross sales.....	\$.....	\$.....	\$.....	OTHER INCOME:			
Less outward freight, allow- ances, and returns.....				Income from investments.....	\$.....	\$.....	
Net sales.....				Interest on notes receiv- able, etc.....			
Inventory beginning of year.....				Gross Income.....			
Purchases, net.....							
Less inventory end of year..				DEDUCTIONS FROM INCOME:			
Cost of sales.....				Interest on bonded debt..			
Gross profit on sales...				Interest on notes payable			
Selling expenses (itemized to correspond with ledger accounts kept).....				Total deductions....			
Total selling expense..				Net income—profit and loss			
General expenses (itemized to correspond with ledger accounts kept).....				Add special credits to profit and loss.....			
Total general expense.				Deduct special charges to profit and loss.....			
Administrative expenses (itemized to correspond with ledger accounts kept).....				Profit and loss for period.....			
Total administrative expense.....				Surplus beginning of period.			
Total expenses.....				Dividends paid.....			
Net profit on sales....				Surplus ending of period.....			

FORM OF BALANCE SHEET

ASSETS		LIABILITIES	
Cash:		Bills, Notes and Accounts Payable:	
1a. Cash on hand—currency and coin.....		Unsecured Bills and Notes:	
1b. Cash in Bank.....		2. Acceptances made for mer- chandise or raw material purchased.....	
Notes and Accounts Receivable:		4. Notes given for merchan- dise or raw material purchased.....	
3. Notes receivable of cus- tomers on hand (not past due).....		6. Notes given to banks for money borrowed.....	
5. Notes receivable dis- counted or sold with in- dorsement or guaranty..		8. Notes sold through brokers	
7. Accounts receivable, cus- tomers (not past due)...		10. Notes given for machinery, additions to plant, etc....	
9. Notes receivable, custom- ers, past due (cash value, \$.....)		12. Notes due to stockholders, officers, or employees....	
11. Accounts receivable, cus- tomers, past due (cash value, \$.....)		Unsecured Accounts:	
		14. Accounts payable for pur- chase (not yet due).....	
		16. Accounts payable for pur- chases (past due).....	

FORM OF BALANCE SHEET

(Continued)

ASSETS		LIABILITIES	
<i>Less:</i>		18. Accounts payable to stockholders, officers or employees.....	
13. Provisions for bad debts.....		<i>Secured Liabilities:</i>	
15. Provisions for discounts, freights, allowances, etc.....		20a. Notes receivable discounted or sold with indorsement or guaranty (contra).....	
<i>Inventories:</i>		20b. Customers' accounts discounted or assigned (contra).....	
17. Raw material on hand.....		20c. Obligations secured by liens on inventories.....	
19. Goods in process.....		20d. Obligations secured by securities deposited as collateral.....	
21. Uncompleted contracts.....		22. Accrued liabilities (interest, taxes, wages, etc.).....	
Less payments on account thereof.....		<i>Other Current Liabilities</i> (describe fully):	
23. Finished goods on hand.....		Total current liabilities.....	
<i>Other Quick Assets</i> (describe fully)		<i>Fixed Liabilities:</i>	
Total quick assets (excluding all investments).....		24. Mortgage on plant (due date.....)	
<i>Securities:</i>		26. Mortgage on other real estate (due date.....)	
25. Securities readily marketable and salable without impairing the business.....		28. Chattel mortgage on machinery or equipment (due date.....)	
27. Notes given by officers, stockholders, or employees.....		30. Bonded debt (due date.....)	
29. Accounts due from officers, stockholders, or employees.....		32. <i>Other Fixed Liabilities</i> (describe fully):	
Total current assets.....		Total fixed liabilities.....	
<i>Fixed Assets:</i>		Total liabilities.....	
31. Land used for plant.....		<i>Net Worth:</i>	
33. Buildings used for plant.....		34. If a corporation:	
35. Machinery.....		(a) Preferred stock (less stock in treasury).....	
37. Tools and plant equipment.....		(b) Common stock (less stock in treasury).....	
39. Patterns and drawings.....		(c) Surplus and undivided profits.....	
41. Office furniture and fixtures.....		<i>Less:</i>	
43. Other fixed assets, if any (describe fully).....		(d) Book value of good will.....	
<i>Less:</i>		(e) Deficit.....	
45. Reserves for depreciation.....		36. If an individual or partnership:	
Total fixed assets.....		(a) Capital.....	
<i>Deferred Charges:</i>		(b) Undistributed profits or deficit.....	
47. Prepaid expenses, interest, insurance, taxes, etc.....		Total.....	
Other assets (49).....			
Total assets.....			

The L. R. B. & M. Journal

Published by Lybrand, Ross Bros. and Montgomery, for free distribution to members and employees of the firm.

The purpose of this journal is to communicate to every member of the staff and office plans and accomplishments of the firm; to provide a medium for the exchange of suggestions and ideas for improvement; to encourage and maintain a proper spirit of cooperation and interest and to help in the solution of common problems.

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Will the Accountant Become the Adviser of the Business Man?

In the March issue of *The Pace Student* Mr. Homer S. Pace, the president of the New York State Society of Certified Public Accountants, has stated very clearly and forcefully what many of us are thinking but have not put into words. In view of the importance of the subject, we have secured Mr. Pace's permission to reprint the article in our journal and it will be found on another page of this issue.

We would urge every member of our organization to read Mr. Pace's article. A careful consideration of it will be helpful in developing a keener sense of how the public accountant may be of the greatest service to his clients.

New York Moneyed Capital Tax

A recent report, published by the New York Tax Reform Association, deals, among other things, with the Moneyed Capital Tax enacted by New York State in 1923. The references to this tax by the secretary of the New York Tax Reform Association set forth clearly the objections to this tax; also, they express briefly the difficulties which we have experienced in attempting to prepare returns for the purposes of that tax in those cases where we have been asked to do so by various clients of our firm, with the hope of emphasizing the highly unsatisfactory nature of this tax and with the thought that if this is made clear to those charged with the responsibility of formulating the taxes to be imposed, such an unsatisfactory tax as this will be abolished or at least modified and clarified sufficiently to make it a really workable tax, if that be possible. We reproduce below the criticisms expressed in the New York Tax Reform Association's report:

"One of the most vexatious tax meas-

ures of recent years is the Moneyed Capital Tax passed in 1923."

This law and the events leading up to its enactment have been described fully in previous reports. Briefly, it is an attempt to retain the ad valorem tax of 1 per cent. on national bank shares by imposing a similar tax on competing moneyed capital and thus comply with the Federal statute which forbids discrimination. No change was made in this law by the legislature of 1924 except to reduce the penalty for non-payment and revise the hearing dates.

Not Uniformly Enforced

"This Moneyed Capital Tax is obscure in its wording, contains no understandable definition of the term to guide the taxpayer in making a report, and has been most unequally enforced. In many cities few or no assessments have been made. In the City of New York the Tax Department dragged in businesses that no layman would suppose could be deemed to compete with the banking business, such as pawnbrokers. The 1923 tentative assessment of some 6,000 persons for \$1,200,000,000 was cut down by the tax board to a final amount of \$600,000,000 against 3,000 persons and 1,093 of these immediately started court proceedings on various grounds.

"This moneyed capital tax law revives the evils of the old personal property tax. Assessments are made on suspicion, and many persons who cannot possibly be held taxable have to crowd the tax office to get relief. Hundreds of others who will probably be held exempt have to take costly legal proceedings to guard their rights. And those who may finally be determined to come within the law are confronted by a maze of uncertainties and complexities in trying to decide just what part of their assets to subject to report and taxation."

German Finance and Industry

(Continued from page 5)

ments of living conditions and wages in Germany will not be accomplished without unpleasant experiences. Germany's future, however, lies in its industrial rehabilitation. Its currency is now stabilized; its factories are, with exceptions of some lines, running almost at capacity and they can be expected to continue so to run for some time; its credit is being quickly restored and internal adjustments with respect to equipment, taxes and labor are the present problems which must be met and satisfactorily adjusted shortly. If the labor cost continues low, and Germany succeeds in slashing the cost of living and taxes, her costs, even without completely modern equipment, will soon be down to a competitive basis. In industries where labor forms the principal item of cost, she is only prevented today by the tariff wall from competition with American manufacturers in the United States. But wages must go up and the costs will go up also, and the greatest danger to American industry is believed to lie principally in the possibility of Germany dumping her goods in whatever market she can place them, if not actually at less than production cost, then certainly below the prices at which sold for home consumption.

Still At It

A famous financier was taken seriously ill at the age of 90 and felt his end near.

"Nonsense," said the doctor, "the Lord isn't going to take you until you've passed the hundred mark."

"No, my friend," said the aged banker, "that wouldn't be good finance. Why should the Lord wait until I reach par when He can pick me up at ninety?"

—Exch.

Office Notes

BERLIN

From Berlin to Buda-Pest

To get to Hungary from Berlin, one must pass through either Austria or Tsecko-Slovakia; I went through the latter country. To my surprise I found that Tsecko had policemen in blue uniforms, with helmets like the London bobbies. It is interesting to note how the language on all signs, etc., changes the instant one goes from one country to another here. Traveling in the day time did away with some of the objections of the customs and passport examinations experienced on a recent night trip from Berlin to Warsaw. However, you pass from Tsecko into Hungary at night (or rather in the morning just before time to get up), so that the nuisance is again gone through. On arriving at the Hungarian border, a new idea in annoyance turns up; the Hungarian inspector asks you how much money you've got. I don't know why he asks, and neither does he, for when you ask him (in German, for nearly all understand and speak German a little), he answers that "it's the law"; no matter what you tell him, he appears satisfied with your answer. I had American cash, American travelers' checks, German marks and Tsecko-Slovak kroner, and in answer to his question I waved two German marks at him (worth less than 50 cents) and said nothing about the rest, and he seemed happy that "justice and the law had been upheld." It's the irony of fate, however, to have the Hungarians ask you about your money (they tell you—your fellow travelers do—that the Hungarian doesn't want his money contaminated by too much other money coming into Hungary), for their money is now the worst of the bunch, since it takes 72,000 of their kroner to make a dollar, where before the war it took but 5.

Buda-Pest is much the same as Berlin; a large metropolitan European city, but with the "beautiful blue Danube" (which is as dirty in color as can be, at least at this time of the year, and is as muddy as possible) separating Pest from the city of Oden, on the high bank opposite. Just across from the hotels along the Danube in Pest is the palace of the former Kings of Hungary, now occupied by the Regent, Admiral Horthy.

There are many magnificent public buildings in Buda-Pest, and I imagine that in summer it is a beautiful city. Most of the European cities use either white stone or stucco in the construction of their buildings, and when the sun is shining they look nice, especially so since the architecture is on a grand and colossal scale and columns, brackets, facades and cornices are all well designed and figures are used decoratively. It rained the entire time I was in Buda-Pest, so that the city didn't do itself proud, especially since there was plenty of mud around.

Since there is no import duty on American automobiles in Hungary, there are many more of them there than in Germany. It seems, however, that only the General Motors Company has taken an effective part in developing this market.

Oh, the language! Some folks say that the intelligence of a people can be gauged from its language; that the greater the number of vowels used in comparison with the number of consonants, the greater the intelligence; and the less the number of vowels, the nearer primeval barbarism it is. If that is so, there's a mighty difference between the Tsecks and the Hungarians on the one hand and the Anglo-Saxons and Germans on the other. There's also some difference between the Tsecks and the Hungarians, to the disadvantage of the latter. Both of their written lan-

guages look a fright, but that of the Hungarians looks like a combination of Chinese and Turkish. It's a good thing that at the hotels and the railroad stations the folks also talk German, or one would be lost. It's interesting to note that the Hungarians have restored the teaching of German in their schools, and have even made it compulsory for their officials to learn to read and write German within six months under pain of losing their positions.

Austria has entered into an economic union with Germany, and Hungary realizes that it is to her advantage to have her population thoroughly acquainted with German, and she is retracing her steps, since she had thrown out German from her business some time ago.

A lumberman on the train with whom I had taken lunch showed me some American gold eagles, and told me that whenever he travels for the purpose of buying lumber he always takes American gold with him to pay for the lumber. He said that it is necessary to have good money, and that the use of American gold is not uncommon in southeastern Europe, that the banks import the gold from America for that purpose.

It's an elementary education in foreign exchange to make change from one currency to another when one travels between several European countries. You pay for luncheon in German currency, and you are waited on by German waiters and use German menu cards and eat a typical German meal. Just before evening dinner you arrive at the Tsecko border; here you must change enough of your German money into Tsecko currency to pay for your evening meal. That meal is on another diner (the first one having remained in Germany) and you look helplessly over the Tsecko menu. Fortunately (or unfortunately) the meals on the trains are all table d'hôte and you can't select;

there's one meal for the crowd. What a difference between the meals! Even the bread is different; the German hard roll has gone, and dark, stiff, sour bread takes its place.

It's like a comic opera scene to handle the Hungarian currency. You give the waiter a tip of about 25,000 kroner; you pay 15,000 kroner for a postage stamp; you pay 366,000 kroner a day for a room without meals at the hotel, and when you buy your railroad ticket to Berlin you feel like Mr. Vanrockerbilt as you dig into your jeans for the sum of 2,185,000 kroner and carelessly toss the porter a 100,000 kroner tip for attending to the details and calling the cab, which takes you to the station for another 125,000 kroner.

E. E. S.

BOSTON

On Thursday, February 19th, Mr. Sweet lectured on "Budgeting" before the New England Chapter of the Robert Morris Associates at Young's Hotel, Boston.

* * *

Mr. Wakefield, who has been on the sick list since early in February, is greatly missed. He is improving, and we hope that before long he will be entirely restored to health and with us again.

* * *

During the past two years several members of our staff have been working almost constantly with lawyers in important cases of litigation.

* * *

About May 1st we move to more commodious offices on the twelfth floor of the new Chamber of Commerce Building. Our new address will be 80 Federal Street.

* * *

That all classes of Boston society have their income tax troubles is evident from the following item, which recently ap-

peared in the "As the World Wags" column of the *Boston Herald*:

Mr. George Washington Adams Lee is greatly perplexed by a clause in the Personal Exemption and Credits Section of the Federal Tax Instructions. The clause relates to changes in the status of a taxpayer during the taxable year.

We publish Mr. Lee's letter verb. et lit.:

"Mister As the World Wags:

"I was married twice las year the first time on February 13 to a light Jamaica gal what aint no ways cullud, but i scovered later she was alreade married to another man so of coars that doan count no ways and den on May 23 i took a Widder Woman what had som proptly to wife an she runned off an left me when she hearde I was alreade married to the light Jamaica gal. So is i married or aint? An do I have to pay Taxes as married or Singular? Will you splain what it means on the Tax Blank when it say in case the status of a taxpayer changes during the taxable year, the personal exemption shall be the sum of an amount which bears the same ratio to \$1000 as the number of months during which the taxpayer was single bears to 12 months, plus an amount which bears the same ratio to \$2500 as the number of months during which the taxpayer was a married person living with husband or wife or was head of a family bears to 12 months.

Yours truly respectfully
"Geo. Wash. Adams Lee"

"P. S. The Jamaica gal done come back on me November 19 with twins, both dependent. Was i exempt or is i? I gets \$28.50 a week cleaning fish an Saturday afternoons off."

CLEVELAND

The modesty of the Cleveland office apparently forbade the sending in of the commendations from clients which appear below, but when they came to the editor's attention in another way he felt that they should be brought to the notice of our organization. It is very gratifying that a young office like Cleveland should be "registering" so effectively with our clients. Evidently Cleveland's slogan is "great deeds and noble actions, not loud words."

Your letter of January 29th enclosing copy of Treasury Department's letter of January 23rd has been received. I wish to compliment you and your organization on the work you have done for us and to assure you that your efforts are greatly appreciated.

You can inform your friend, Mr. Henderson in Chicago, that Mr. Sinclair has rendered us very effective service in the examination of our books. We have received from him a complete copy of the audit which has been made and our relations with him have been very satisfactory indeed.

* * *

This will acknowledge receipt of six copies of report covering your examination of the records of the company as of December 31, 1924.

Please accept my thanks for the way you have set up the report and also for the very agreeable way in which you and your men handled the work.

* * *

I received the February 11th check-up of the company and want to compliment you on the completeness of the report. I am very much gratified to have it so nicely cover the points which I discussed with you.

DETROIT

L. B. McLaughlin has decided that the next time he goes out of town he will chain his traveling bag to his person. It happened that on a trip north of Detroit it was raining when he got off the train. He espied a waiting taxicab, however, walked over to it, nonchalantly handed his bag to the driver, and was driven off in style to the local hotel. When he arrived there, though, the bag had disappeared. What a blow! Our hero stood the shock remarkably well, however, but a few days later he received a very severe jolt in the neighborhood of his pocket-book. At this writing he is still trying to secure damages from the taxicab company.

* * *

One of the members of the staff, when traveling on an interurban car, happened to have the misfortune of tearing his clothing on a seat. After paying \$2.75 for repairs, he decided to write the railway company and find out what they would do. His letter, which asked no damages, was a masterpiece, especially when he talked about the mental anguish he had suffered, etc. (We would print it in full, but our space is limited.) About

a month later he received a check for \$5.00 to cover a full settlement, and carried it around another month before he decided to cash it.

Moral: You never know what you can do until you try.

* * *

We note that many connected with the L. R. B. & M. organization have been touring Europe lately, and upon their return have written an account of their trip for the Journal. Three of the members of this office spent part of last summer in Europe, but all of them were rather bashful about writing about their experiences (applause). The publication of the various accounts, however, has induced one of them to write down her impressions of Deauville. We understand that the first syllable is pronounced "dough," because you need a lot of it.

An Impression of Deauville

As far as the eye can see—golden sands dotted with gaily colored tents resembling huge butterflies, while above them are the green-blue skies of Northern France, the atmosphere filled with that "*joie de vivre*" that only France can give. Imagine the joy of riding along those sands at a gallop with the fresh keen air on your face. On one side is the foam of the breaking waves touching your horse's hoofs; on the other, are the beautiful villas and long gardens full of brilliant flowers.

"What'll I do?" is not the question here. If quiet is desired, long country roads wandering between smiling Normandy orchards attract you. If excitement is craved, there are races, polo matches, tennis, bathing, dancing, yachting and, to finish the day, the flower-bedecked Casino with its striped awnings and its gaming tables. Here an excellent opera is to be heard. In the intervals between acts the lure of chance can en-

tice you to *Petits Chevaux* (but it is well to have the reservation for the return journey paid for in advance if you indulge in this pastime).

NEW YORK

Now that our firm has established an office in Continental Europe, it is to be expected that the partners' trips will be more numerous abroad than in the past. Mr. Lybrand heads the list by sailing the 8th of this month on the S. S. "Aquitania" for England and will fly by airplane from London to Berlin, where he will spend some days at the Berlin office.

* * *

Mr. Howard of this office lectured on the 1924 Revenue Act recently before the Elizabeth (N. J.) Chapter of the American Institute of Banking.

* * *

Mr. C. F. Griffis, one of our old-timers, has "flown the coop." He may now be reached through the offices of the Bakelite Corporation, where he has accepted the position of comptroller. "Griff's" smile and ready wit will be sorely missed at this office.

* * *

Some of the men in this office are wondering why Flachbart has been so frisky of late. Here's the answer: He tunes in on WOR and does his daily dozen. Maybe it is the exercise; maybe it is the early rising. All of which recalls the old rhyme, "Early to bed, early to rise . . . healthy, wealthy and wise," etc. We have just one question to ask in reply to this jingle: Have you ever seen a milkman?

* * *

We take pleasure in reporting the birth of a son to Mr. and Mrs. James A. Vassar on March 29. Mrs. Vassar was formerly Miss Kissinger of the Washington and, later, New York offices.

Mr. G. W. Pavelka of the New York staff proved himself a hero on a recent occasion. While waiting for the train to take him from an out-of-town assignment to his home he was able, by some quick thinking and action, to rescue a young lady who had been thrown from the platform of the train towards the wheels of the car. Had it not been for the presence of mind of Mr. Pavelka the young lady would surely have been crushed to death.

PHILADELPHIA

The following members of the Philadelphia staff successfully passed their C. P. A. examinations in November last:

Henry S. McCaffrey	Lewis Leland Tanguy
Thomas W. Rogers	Horace E. Witman
William C. Roux	Carl H. Zipf
	Walter L. Schaffer

In addition to the foregoing, the following members of the staff had previously received their certificates:

David R. Anderson	John L. Ricker
John M. Carson	Donald M. Russell
Elmer F. Conner	Michael H. Sigafoos
Fred C. Dennis	Charles Christian Smith
George R. Drabenstadt	William H. Van Hekle
A. Karl Fischer	Charles H. Yardley
Clarence R. Haas	Frank C. Kirk
	Robert L. MacGarrigle, Jr.

This makes a total of 22 members of the staff who are certified.

WASHINGTON

The Washington office will probably get marked down as having nothing of importance to contribute if we begin to talk about the weather. All the same, the weather in Washington is frequently worthy of comment, and just now we are feeling somewhat abused about it. After several days of perfectly balmy spring weather, during which time all the cherry blossoms and forsythia came into bloom, and heavy overcoats began to disappear, we had word that Mr. Appenzellar, of the firm of Swartout & Appenzellar, was coming through Washington on his way

back to New York from Florida. Immediately, we were greeted by a snow-storm! We hope he and Mrs. Appenzellar enjoyed their first visit to the golf courses of Washington, but we had not planned to give them such a chilly reception.

* * *

Mr. and Mrs. Haynes are planning to attend the conference of the International Chamber of Commerce, to be held in Brussels during the month of June. The only way the members of the office staff can reconcile themselves to having Mr. Haynes away such a long time is by remembering that when the vacation issue of the Journal comes out we can make Mr. Haynes write the Journal notes.

* * *

Mrs. Magathan is in the hospital, recovering from a serious operation. We are glad to say that she is making a very satisfactory recovery. Mr. Magathan does not feel that it is a very speedy one, but then he is having to take care of his three youngsters, and the nurse just won't stay on Sundays.

* * *

Mr. McGuire is the proud possessor of a new Studebaker, and up to date has not reported any casualties, though we are informed on the excellent authority of Mrs. McGuire that he is not all to blame that there haven't been any.

* * *

The National Vaudeville Association is issuing a ban against mother-in-law and police jokes, and a few other of the old standbys. Probably they will eventually put a stop to jokes on Philadelphia. Before they do, we desire to quote the following comment from the daily paragrapher in the *Washington Post* in regard to the notice of the death of four Philadelphia men, who are said to have died of sleeping sickness:

"If a Philadelphian dies of sleeping sickness, how do they know it?"

